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Over-Production and Under-Consumption

OVER-PRODUCTION in most of the basic commodities is a fact. The cause of the over-production is a matter of opinion. The Great War is said to have depleted the stores of these supplies. Replacements created heavy demands. Prices rose. Production was stimulated. Stocks increased. Effective demand failed to keep pace. A glut resulted.

A purveyor of food estimates the number of prospective customers. He calculates the extent of their requirements. The quality of food needed is computed. The food is placed in stock and made ready to be served. If customers fail to appear in sufficient numbers, there is a glut. Such food as the purveyor, his family, employes, friends, or other persons are unable to consume becomes waste. As such it has only salvage value.

In a situation of this kind, there is bound to be a loss. The loss is a loss of capital. The capital may be that of the purveyor. It may be that of some one who supplied the food on credit. A dearth of customers will preclude the recovery of that capital, except through the prolonged process of future operations on a profitable basis.

The correction of conditions, such as these, calls for a capital adjustment. Purveyors who are caught in a jam of this character, must either go out of business, or take their losses and start anew. If they have too much borrowed capital, bankruptcy is inevitable, unless they are able to make new credit arrangements. Where the capital employed in the enterprise was his own, the consequence is a deprivation to be suffered by the unfortunate purveyor alone.

Just now the country is suffering from under-consumption as well as over-production. Figuratively speaking, the country is on a spending-diet. The abnegation extends from additions and repairs to property to social diversion, clothing, and food. The psychological element of the credit factor which, born of paper profits, made for reckless spending is no more. In its place, there is a fear complex, which is routing money into the savings banks and insurance companies. The temerity which took money into the luxury fields, sent it on along lines which, if not so genteel economically, at least served to generate purchasing power. The timidity which today steers the money into the savings banks only aggravates the existing maladjustment by reason of limiting the further flow to gilt-edged business units which already are surfeited with funds and credit.

One guess is as good as another concerning the ways and means of correcting the present unsatisfactory condition in which there is ample evidence of loss adjustment.

Never have the forecasters, and would-be forecasters, suffered greater discredit. However, without pretense of knowledge, where there is no knowledge, it may be suggested that sensible spending, by those whose funds and credit permit, cannot help but create further purchasing power. But, cognizance needs to be taken of the fact that our foreign markets are disappearing rapidly. Production, therefore, needs to be scaled down to the point where there is no exportable surplus. Any plans for the near future would seem to require as a basis, an economy strongly domestic in character, the objectives of which are a constantly increasing number of those who may enjoy high standards of living, greater leisure, and free play of economic forces which will tend to synchronize domestic production with domestic consumption.

Quantitative Measurements

THE INFLUENCE of economic changes on the financial condition of individual enterprises is nowhere reflected more sharply than in stocks of merchandise. Cash may show an increase or decrease in amount when compared at two different dates and the change may have no secondary significance. Accounts receivable appearing in a lesser amount at the later of two dates indicate, from an economic point of view, that the enterprise at that time has less capital invested in that asset. Changes in inventories have a dual significance. They are stated in terms of dollars, but the dollar must be reinterpreted in the light of current prices.

The period from 1921 to 1929 was one of increasing prices. During that period the general price level mounted steadily and generously. The problem constantly presented was one of replacements at higher prices. The same quantities at successively later periods showed increasingly larger numbers of dollars tied up in inventories. The immediate future, from a business viewpoint, was not so troublesome, because the general movement was upward, and there was reasonable prospect of selling goods at increasingly higher prices.

Now the situation is reversed. Prices of cattle, for example, have declined to the lowest in twenty-five years. Two years ago, sirloin steak was selling at fifty-one cents a pound. On June 10, 1931, it sold at thirty-five cents a pound. Last year, in June, prime ribs retailed at forty-three cents a pound. Last week the retail price was twenty-three cents. The purchasing power of the retail meat-dollar has increased about eighty-seven per cent. The housewife with forty-three cents to spend for prime ribs of beef, may have almost two pounds now, instead of one pound a year ago. The housewife with twenty-three cents to spend now may have a pound of prime rib roast, whereas last year she might not have been able to buy any because of the high price.

The dealer's inventory of one pound of beef last year would have shown forty-three cents invested in that commodity. This year the inventory would show one pound at twenty-three cents. Ostensibly, there has been a reduction of forty-six and one-half per cent. in the inventory. In reality, the inventory has not been reduced. The value of the inventory, based on current prices, has declined.

This homely illustration suggests what may be expected in most lines of business, whether the inventory amounts to thousands or to millions of dollars. Prices generally have been following the curve applicable to meats, as may be seen from consulting the various price indices. Weekly average prices of representative commodities for the month of May, 1931, show the purchasing power of the dollar as 140.2, the year 1926 being used as the basis for comparison. For the same month in 1930, the